

Fiscal Recovery

The City of San Diego remains committed to restoring fiscal stability, addressing its financial obligations and meeting its responsibility to provide essential core services to San Diego residents. The Fiscal Year 2009 Proposed Budget reflects this commitment and continues to enhance funding for eight significant areas of concern called out in the Mayor's Five-Year Financial Outlook.

Prior to the Mayor taking office, these areas were either neglected or under-funded for many years with their impact on the City's budget continuing to grow. The Five-Year Financial Outlook established appropriate funding for these areas as a priority for the City's budget process. The Fiscal Year 2009 budget:



- Properly funds the City's Pension Plan
- Properly funds the City's General Fund reserves
- Provides more funding for deferred maintenance and capital improvement needs
- Properly funds the City's Post Employment Medical Program
- Continues to meet the City's obligations under Storm Water Runoff Permits
- Appropriately funds the City's obligations under the Americans with Disabilities Act
- Increases the City's Workers' Compensation Fund
- Adequately addresses the City's Public Liability Fund needs

The new budget also continues many other initiatives designed to help restore fiscal stability to the City. It protects the City's ability to deliver essential core services, continues the Business Process Reengineering effort and will continue expansion of the voter-approved Managed Competition initiative.

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Citywide Reorganization

The structure of the City continues to undergo a realignment intended to convert the City into a more efficient organization. These changes to the organization will continue to move the City toward fiscal recovery while allowing for better use of resources and promoting accountability. The efforts made in Fiscal Years 2007 and 2008 continue into Fiscal Year 2009 in order to streamline the City's organizational structure. For Fiscal Year 2009, a net reduction of 127.13 full-time equivalent (FTE) positions is reflected in the budget.

Maintaining Sound Financial Structure

In the first edition of the Five-Year Financial Outlook, the Mayor identified eight significant areas that had historically been either ignored or severely underfunded. A continued funding commitment to each of these eight areas is essential for the City to achieve fiscal recovery:

- Employee Pension Plan
- General Fund reserves
- Deferred maintenance and capital improvement needs
- Retiree Health (Other Post Employment Benefits)
- Requirements for Storm Water Runoff Permits
- Obligations under the Americans with Disabilities Act
- Workers' Compensation Fund
- Public Liability Fund

Funding the Pension Plan

Insuring adequate funding for the City's Retirement System is critical for the long-term fiscal health and stability of the City. In November 2006, voters approved the passage of Proposition B, the Mayor's initiative calling for voter approval of any future increases in pension benefits for City employees. In June 2007, the San Diego City Employees' Retirement System (SDCERS) released its 2007 actuarial valuation report for the City and determined that the City's Annual Required Contribution (ARC) for Fiscal Year 2009 was \$161.7 million.

In Fiscal Year 2008, the ARC, as established by the SDCERS actuarial valuation of June 30, 2006, was \$137.7 million. In Fiscal Year 2008, the City budgeted an additional \$20.0 million ("ARC Plus") and another \$7.3 million to pay back assets used inappropriately to pay for health care benefits. The ARC payment in the Fiscal Year 2009 Proposed Budget is \$161.7 million as determined by the June 30, 2007 valuation conducted by the SDCERS actuary. This valuation applied the Entry Age Normal (EAN) method (calculating future actuarial liabilities beginning with the Fiscal Year 2007 valuation), a 20-year Unfunded Actuarial Liability (UAL) amortization period, and included \$9.4 million in the ARC to eliminate negative amortization. The full budgeted amount necessary to pay the ARC will be advanced to the SDCERS in July 2008.

Building Reserves

Building healthy reserves will help insulate City services against periodic swings in the economy as well as demands placed on the City to pay the costs from emergencies such as natural disasters. In addition, since the City's reserves are one of several factors considered by rating agencies, a strong reserve balance may help lower the City's cost to borrow money. The City currently maintains several reserves for its operations, including the Emergency Reserve for the General Fund, which was established to fund unanticipated liabilities for natural disasters, catastrophic occurrences, and judgments.

The City's recently adopted reserve policy calls for the maintenance of adequate reserve levels for the Emergency Reserve, the establishment of an Appropriated Reserve, reserves for Enterprise Funds such as Water and Wastewater, a capital reserve, as well as other types of reserves. The City's policy defines a goal of having a minimum of 8.0 percent of General Fund revenues held in reserves by Fiscal Year 2012.

For Fiscal Year 2009, the reserve policy calls for 6.5 percent of General Fund revenues to be held in reserve; the updated Five-Year Financial Outlook reaffirmed this commitment. The Fiscal Year 2009 Proposed Budget includes \$6.0 million as a contribution toward the General Fund reserve goal.



Funding Deferred Maintenance

Over the years, the City has undertaken several studies to catalog deferred maintenance needs for which no funding had been identified. It is estimated that the City's deferred maintenance and capital needs, excluding the Water and Wastewater enterprises, may be \$800 to \$900 million.

The forecast for addressing the City's deferred maintenance needs in Fiscal Year 2009 assumes that \$31.8 million will be spent on facility repairs and improvements, \$6.8 million of which will be paid in cash with the remaining \$25.0 million being financed. Additionally, \$73.7 million will be spent in Fiscal Year 2009 to address the deferred maintenance of the City's storm drains and streets. The City's formula for financing storm drain and streets maintenance assumes that \$21.2 million will be paid in cash with proceeds from Proposition 1B, of which \$5.8 million is budgeted in the General Fund and the balance of \$15.4 million is budgeted in the Capital Improvements Program. More information about the City's Proposition 1B allocation can be found in the Executive Summary section of this volume. The remaining \$52.5 million of the City's streets and storm drain obligations will be financed.

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In summary, the Fiscal Year 2009 Proposed Budget includes \$109.1 million in total deferred maintenance/capital improvements funding to address new and ongoing projects, of which \$28.0 million will be paid in cash and the remaining \$77.5 million financed. Of the total \$109.1 million commitment, \$3.6 million is allocated for debt service.

Addressing Escalating Retiree Health Care Costs

Under the terms mandated by the Governmental Accounting Standards Board (GASB 45), public agencies across the country, including the City of San Diego, will be required to report and record the retiree health care costs liability on an actuarial basis in its financial statements. Since the annual costs of the City



employee benefits are projected to increase substantially over the next five to 10 years and in order to meet the requirements of the GASB 45 to disclose this liability in its Comprehensive Annual Financial Report (CAFR), retiree health care, otherwise known as other post employment benefits (OPEB), is being more aggressively funded. In preparation to meet the requirements of GASB 45, the City entered into an agreement on January 18, 2008 with CalPERS Employer Retiree Benefit Trust to pre-fund expenses related to post-employment healthcare benefits. The plan, administered

by CalPERS, requires the City to pre-fund the plan in an amount not less than \$5,000; however, the City intends to pay an amount not less than 50 percent of the Annual Required Contribution, as calculated by an actuary of the City.

The Fiscal Year 2008 Annual Budget included funding for these costs on a 'pay-as-you-go' basis, with the annual benefits cost being \$23.0 million for Fiscal Year 2008 and an additional \$25.0 million to contribute to an irrevocable trust to pre-fund the OPEB liability. The Five-Year Financial Outlook projects that the City will begin paying the full ARC for retiree benefits in 2010.

Consistent with the Five-Year Financial Outlook issued in January 2008, the City will budget \$50.0 million in Fiscal Year 2009, which is comprised of \$23.0 million for the annual retiree health benefits payments (pay-as-you-go) and \$27.0 million for pre-funding retiree health care benefits.

Maintaining Compliance with Storm Water Runoff Permit

Compliance with new storm water runoff regulations associated with new permits has created a large impact on the City's budget. The Fiscal Year 2008 Annual Budget included \$18.0 million to comply with the public education and monitoring requirements. In Fiscal Year 2009, the City will continue to comply with the regulations for the new storm water runoff permits. The Fiscal Year 2009 Proposed Budget includes \$27.5 million to comply with the public education and monitoring requirements.

Compliance with the Americans with Disabilities Act

The Americans with Disabilities Act (ADA) went into effect in 1990, requiring public and private agencies to make facilities and infrastructure universally accessible. ADA improvements are permanent improvements to public sidewalks and facilities and include additional capital projects such as the installation of audible signals at intersections.

Beginning in Fiscal Year 2008, the City's Five-Year Financial Outlook called for an annual allocation of \$10.0 million to begin funding ADA requirements. In Fiscal Year 2009, the City will fund projects to improve ADA compliance with sales of underperforming City-owned real estate assets in addition to existing Community Development Block Grant funding.

Building the Workers' Compensation Fund Reserve

Workers' compensation liabilities are currently estimated to be approximately \$161.0 million in filed claims, and the City needs to establish sufficient reserves to cover increases in these liabilities. By establishing an acceptable reserve level, the City will provide better protection against adverse impacts to General Fund services as a result of these liabilities. The Fiscal Year 2009 Proposed Budget includes a regular contribution of \$22.0 million as pay-as-you-go payment for workers' compensation claims as well as a \$5.0 million contribution to the Workers' Compensation Fund Reserve.

Building the Public Liability Fund Reserve

Similar to workers' compensation liabilities, the City has public liabilities that fluctuate year over year. The public liabilities are currently estimated to be \$114.0 million in filed claims. Any excessive payouts for public liability claims would create a negative impact on General Fund services. The establishment of a sufficient reserve would insulate General Fund services from a detrimental payout if the City were found liable in a claim. The Fiscal Year 2009 Proposed Budget includes \$10.0 million in new funding toward building the Public Liability Fund Reserve; this is in addition to the regular pay-as-you-go allocation of \$18.0 million for a total budgeted amount of \$28.0 million. The \$10.0 million reserve consists of a \$5.0 million contribution, which is consistent with the Five-Year Financial Outlook, as well as an additional \$5.0 million to replace prior year reserves spent in Fiscal Year 2008.

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Cumulative Budget Impact

The following table compares the projections in the Fiscal Years 2009-2013 Five-Year Financial Outlook with the Fiscal Year 2009 Proposed Budget. The Fiscal Year 2009 Proposed Budget provides funding for each of the eight significant areas and demonstrates the Mayor's continuing commitment to the implementation of the Five-Year Financial Outlook to restore and maintain the City's sound financial structure.

TABLE 1 TOTAL CITY CUMULATIVE BUDGET IMPACT FUNDING FOR EIGHT SIGNIFICANT AREAS (IN MILLIONS)				
	FY 2009 Projected in Outlook		FY 2009 Proposed Budget	
	All Funds	General Fund Amount	All Funds	General Fund Amount
ARC Plus (included in ARC payment)	\$ 9.7	\$ 9.7	(1)	
Reserves	7.0	7.0	6.0	6.0
Deferred Maintenance (2)	29.7	22.9	31.6	9.4
OPEB	50.0	34.0	50.0	35.2
Storm Water Runoff Compliance	29.5	29.5	27.5	27.5
ADA Compliance (3)	10.0	-	10.0	-
Workers' Compensation Fund	5.0	4.1	5.0	4.1
Public Liability Fund	5.0	5.0	10.0	10.0
SUB-TOTAL	\$ 145.9	\$ 112.2	\$ 140.1	\$ 92.2
Financed Capital Projects (4)	77.5	-	77.5	-
TOTAL	\$ 223.4	\$ 112.2	\$ 217.6	\$ 92.2

(1) The budgeted ARC payment includes \$9.4 million to eliminate negative amortization and \$13.1 million for the use of a more conservative 20 year UAL amortization schedule.

(2) The cash contribution to deferred maintenance has been budgeted as follows: \$9.4 million in General Fund of which \$3.6 million is allocated for debt service, and the remaining \$22.2 million in the Capital Improvements Program Budget.

(3) \$10 million for ADA compliance has been budgeted in the Capital Improvements Program Budget.

(4) The financed portion for deferred maintenance projects (\$77.5 million) has been budgeted in the Capital Improvements Program Budget (\$52.5 million for Streets & Storm Drains and \$25.0 million for Facilities).

Corrective Actions Incorporated into the Fiscal Year 2009 Proposed Budget

In order to achieve a balanced budget, several solutions recommended in the Mayor's Five-Year Financial Outlook have been implemented in the Fiscal Year 2009 Proposed Budget.

Leveraging City Assets (\$16.8 Million)

The Real Estate Assets Department has identified properties for sale that will generate one-time revenue. To comply with the City Charter, revenues generated from the sale of public property will be used for funding of capital improvement projects. In the Fiscal Year 2009 Proposed Budget, incremental revenue

of \$1.5 million from the sale of public property is included (over the Fiscal Year 2008 amount of \$15.3 million) in the Capital Improvements Program Budget to fund ADA and capital improvements for City-owned facilities. The total Fiscal Year 2009 revenue projected to be received from the sale of public property is \$21.8 million, but only \$16.8 million has been budgeted in the Capital Improvements Program Budget.

Proposition 1B Funding (\$21.2 Million)

Proposition 1B was approved by California voters in order to provide funding for local streets and roadway infrastructure. The Fiscal Year 2009 Proposed Budget includes \$21.2 million in Proposition 1B funds. This amount will be used to fund the deferred maintenance and capital projects for streets and storm drains.

Federal Emergency Management Agency (FEMA) and California Disaster Assistance Act (CDAA) Reimbursement (\$8 Million)



As a result of the wildfires that burned homes and infrastructure in various City communities, the City was faced with costs associated with fighting fires as well as rebuilding the affected areas. Costs were incurred in the General Fund for staffing in the Fire-Rescue and Police departments, in Environmental Services for debris removal, and for other City operations. The majority of these costs are eligible for reimbursement by the federal government through FEMA and the State through the CDAA. Reimbursements are estimated to be received from FEMA and the CDAA over the next two

fiscal years. The Fiscal Year 2009 Proposed Budget includes \$8 million of the total reimbursement as a conservative projection of the reimbursements that will be received by the City in Fiscal Year 2009.

General Fund Reimbursement for Special Promotional Programs (\$5 Million)

The Fiscal Year 2009 Proposed General Fund Budget includes \$5 million for appropriate cost reimbursement for tourism promotional activities. This transfer will support miscellaneous activities such as Balboa Park events, maintenance of buildings in Mission Beach and La Jolla, and reimbursement for police services for special events. In addition, the full one cent of discretionary Transient Occupancy Tax has been transferred back to the General Fund according to the Municipal Code (section 35.0128) in the amount of \$16.5 million for Fiscal Year 2009.

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General Fund Budget Reductions (\$27.2 Million)

The Fiscal Year 2009 General Fund Proposed Budget includes the following budget reductions:

- Personnel expense and non-personnel expense (NPE) budget reductions totaling \$21.4 million. The personnel expense reduction includes the elimination of 157.15 FTE positions from the General Fund. These reductions are further explained in the Service Impacts Section of this volume.
- The Risk Management and Office of the Chief Information Officer (OCIO) Departments also participated in the savings reductions as savings in these Non-General Fund departments reduce cost citywide, including the General Fund. Rate reductions associated with the elimination of personnel expense (11.50 FTE positions), non-personnel expense, and the use of fund balances from these two departments resulted in General Fund savings of approximately \$4.3 million.
- The City has made significant investments over the last few years to establish a four-year replacement schedule for desktop computers and general purpose laptops used by General Fund departments. Based on these developments, the City is reducing the PC replacement fund by \$1.5 million for Fiscal Year 2009. The \$874,000 in replacement funds proposed for Fiscal Year 2009 will enable the City to address required equipment replacements over the next year with manageable extensions to the four-year replacement schedule. During Fiscal Year 2009, the City will need to reevaluate funding requirements for Fiscal Year 2010 and beyond, considering planned General Fund staffing levels, equipment inventories, software and hardware capabilities, and information technology industry trends.

Conclusion

In Fiscal Year 2009, the City will continue to pursue fiscal recovery. In keeping with the City's goal of reducing structural budget gaps in coming years, the Mayor has reduced a net of 127.13 FTE positions citywide, creating a permanent savings solution that will positively impact future budgets. In addition to addressing future budget gaps, a total reduction of 157.15 FTE positions from the General Fund was necessary to balance the fund in Fiscal Year 2009.

By committing to preserving core services while fulfilling other financial obligations related to the eight significant areas, some service impacts were made in areas not critical to the safety of the City's residents and the basic operation of the City. These impacts are the result of a number of efforts that were made to create savings in areas of the General Fund.